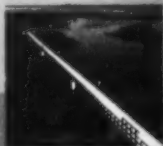
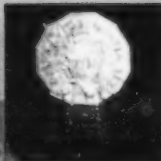


Our Promise

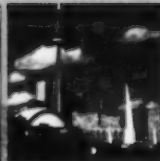
Success. Long Term.



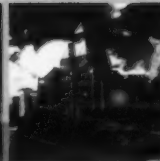
Point Pelee



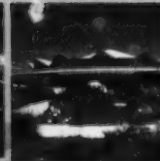
Sudbury



Toronto



Ottawa



Stratford



Niagara Falls



Ontario Pension Board



Bear Lake



Niagara Falls



Toronto

Kamanisgeg Lake

OUR MISSION

OPB's mission is to excel in the provision of pension benefits by

- delivering high-quality, cost-effective services to plan participants and
- enhancing fund value by the prudent maximization of long-term investment returns.

OUR OBJECTIVES

- Provide security for promised benefits
- Minimize the risk of an unfunded liability, and
- Allow our sponsor to provide stable and reasonable contribution rates

OUR CORE VALUES

- Commitment to excellence
- Achievement through teamwork, leadership and client service
- Trust, fairness and respect in the treatment of plan participants
- Accountability to plan participants

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WHO WE ARE The Ontario Pension Board's (OPB) prime goal is to secure the pension promise to beneficiaries of the Public Service Pension Plan ("PSPPlan"). OPB operates on an arm's-length basis from the plan's sponsor, the Province of Ontario, which sets contribution rates, defines pension benefits, and guarantees the pensions 100%. This guarantee is unique among public service pension plans in Ontario.

OPB is both trustee and administrator of the plan, one of Canada's largest pension plans, with assets in excess of \$12 billion, and has approximately 31,450 contributing members employed by the various Ontario ministries, agencies, boards and commissions, and approximately 38,400 pensioners and their survivors.

Dating from 1920, PSPPlan is also one of Canada's oldest pension plans, and as a result of a long series of amendments, legislative changes, and changes to its own provisions, it is one of the most complex pension plans to administer.

Success. Long Term. Our History

While the roots of OPB and the original establishment of the PSPPlan extend back to 1920, there are two seminal events in our history that have shaped OPB of today.

THE FIRST EVENT WAS IN THE LATE 1980s, when the Ontario government commissioned several studies on their public service pension plans, which recommended the creation of an "arm's-length" institution to administer the plan, and the use of market investments to help enhance the value of the plan's assets. This resulted in the creation of the Ontario Pension Board in 1990 to administer the Public Service Pension Plan.

The second defining event in OPB's history took effect on the first day of 1993. The PSPPlan was split into two separate plans – one for Ontario Public Service Employees' Union (OPSEU) members and the other for remaining PSPPlan active members.

Our investment and management philosophy, with a conservative, disciplined and long-term approach, focusing on capital preservation and reliable cash flow generation, and recognizing the need for accuracy in the area of "customer service" for plan members and beneficiaries, fits perfectly with the plan that these historical events have helped to shape.

Commitment Investing the Plan's Assets

RATE OF RETURN OBJECTIVE The Fund requires a **3.75% real rate of return (that is, 3.75% in excess of the rate of inflation) to fund the pension promise.** OPB's objective is prudent maximization of long-term investment returns. Capital preservation is a guiding principle for us, and investment decisions follow careful consideration of risk to reward balance.

THE PORTFOLIO Our actively conservative investment philosophy, with a focus on long-term performance, is evident in our portfolio asset mix which is diversified among quality stocks, fixed income securities and real estate.

We periodically modify the portfolio mix based on a number of factors, including long-term capital market prospects and risk tolerance levels, and we continually investigate alternative investment opportunities that meet our strategic and risk-adjusted objectives.

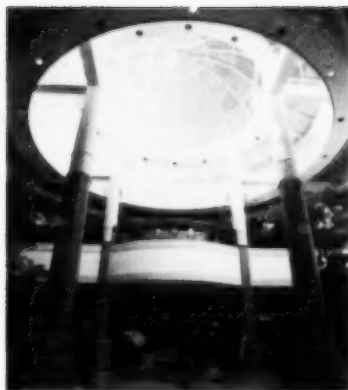
We hold frequent and regular strategy discussions with our investment managers to ensure that their positioning meets our long-term performance objectives and is consistent with our investment beliefs.

MARKETABLE SECURITIES The major portion of our portfolio of marketable securities is managed by eight external fund managers. These fund managers have been given discretion within their mandates. This discretion extends to particular securities, industries and geographic sectors or even to hold cash positions. Their activities are monitored closely through comprehensive financial reporting and regular performance analysis and reviews to ensure that investments remain in high-grade securities.

SPECIAL PROVINCE OF ONTARIO DEBENTURES The Debentures were provided to the plan as a funding mechanism in 1990. They provide consistent, secure cash flow and high coupon rates of return. Our current strategy is to hold these investments until maturity.

REAL ESTATE AND PARTICIPATING MORTGAGES Since our first purchase in 1994, real estate has been an effective investment category for the Fund. Our initial retail focus was expanded in 2002 with additional diversification into ownership of office buildings and land held for development and investment in participating mortgages. The criteria in evaluating new and current properties are an emphasis on long-term capital preservation with the potential of solid returns from income from operations and appreciation in value. Outsourced property management provides the specific expertise for our operations, leasing and development functions.

OPB is investigating other real estate categories that meet our investment objectives.



HALIFAX SHOPPING CENTRE

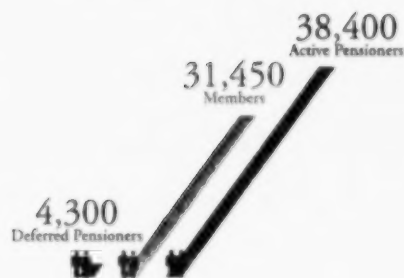
Administering the Plan

The second major responsibility of the Ontario Pension Board is the administration of the plan, including the day-to-day activities that relate most directly to members and pensioners.

In 2003, OPB employees had contact with the plan's approximately 70,000 beneficiaries and members more than 85,000 times. This means that nearly 350 times a day, every working day of the year, OPB was called upon to provide often critical information. The one common requirement of all this communication is accuracy. Our "clients" often make critical decisions for themselves and their families based upon the information we provide and they expect it to be thorough and accurate, as well as timely. We work closely with our members and employers to ensure accuracy.

Client Profile

as at December 31, 2003



In 2003, OPB employees had contact with the plan's approximately 70,000 beneficiaries and members more than 85,000 times. We work closely with our members and employers to ensure accuracy.

OPB shares many of the administrative challenges facing other large pension plans including managing the varied quality and sources of input data from participating employers. It is the diversity of the plan's stakeholders and the complexity that results from differing plan provisions however, which are most demanding when responding to our client needs.

OPB outsources its information technology requirements. This cost-effective approach ensures that we can keep pace with rapidly changing technology, that we have access to special expertise when needed, and that we can rely on assured service levels, with minimal downtime.

OPB's mandate also includes an adjudication role in disputes or interpretations of unclear plan provisions. In recent years, we have focused on improving this dispute resolution process, ensuring the fairness of results and providing prompt decisions.

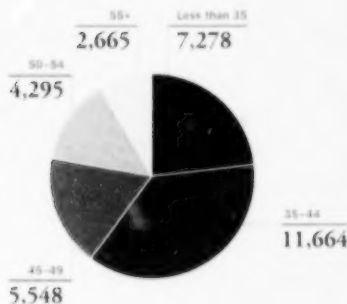
Our Services to Members	2003
Telephone calls	13,800
Buybacks of service	997
Pension estimates	890
Presentations	23
Other cases	29,573

Our Services to Pensioners	2003
Telephone calls	19,763
Information changes	13,778
Other cases	10,304

Commitment 31,450 Members

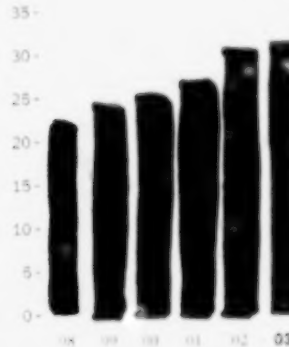
Age Distribution of Members

as at December 31, 2003



Growth in Active Membership

thousands of persons



The membership of the PSPPlan continues to expand, with a net of 1,050 employees added to active membership during 2003. A temporary contribution reduction, equivalent to 3% of salaries, was implemented for most members for the 12-month period commencing March 2003.

The Member Services team at the OPB is continually offering quality service and accurate information to its diverse membership. Whether we are working with employers to ensure a complete contribution history, or with individual members helping them through the complexities of service

buybacks, our qualified staff always strive to provide members with exceptional service.

Number of Members	2003	2002
Active membership at beginning of year	30,400	26,800
Additional members	3,000	4,900
Retirements, immediate and deferred	(550)	(700)
Terminations	(1,400)	(600)
Number of active members at end of year	31,450	30,400

Who Our Members Are

Province of Ontario Ministries

Greater than 1,000 members:

	Number of members	Percent
Public Safety and Policing (includes OPP officers and civilians)	7,550	24.0%
Attorney General	2,384	7.6%
Health & Long Term Care	1,715	5.5%
Transportation	1,367	4.3%
Community Family & Children's Services	1,172	3.7%
Management Board of Cabinet	1,095	3.5%
Correctional Services	1,074	3.4%
Others	6,896	21.9%
	23,253	73.9%

Who Our Members Are	Number of members	Percent
Agencies, Boards and Commissions		
Greater than 1,000 members:		
Ontario Lottery & Gaming Corporation	6,007	19.1%
Others	2,190	7.0%
	8,197	26.1%
Total members	31,450	100.0%

38,400 Active Pensioners

The PSPPlan fully protects pensioners from inflation.

Under the terms of the Plan, every year pensioners receive an adjustment for inflation, which is called the "Escalation Factor." Effective January 1, 2004, pensions were adjusted by an Escalation Factor of 3.3%.

Pensioners who retired in 2003 receive a pro-rated adjustment based on the number of months they were on pension in 2003.

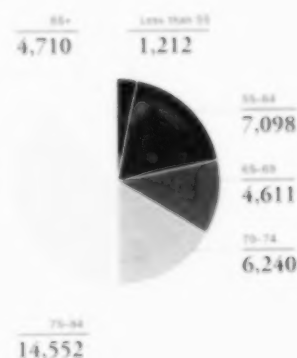
The Escalation Factor is calculated based upon changes in the Consumer Price Index for the 24-month period ending on September 30 of the preceding year. Although increases are capped at 8% a year, any excess is carried forward.

Pensioners	2003	2002
Number of active pensioners at beginning of year	39,000	39,300
Additions, including new retirees, previously deferred	1,150	1,400
Deceased pensioners	(1,150)	(1,100)
Deceased survivors of original pensioner	(600)	(600)
Number of active pensioners at end of year	38,400	39,000

4,300 DEFERRED PENSIONERS Prior to age 55 members who terminate from the Plan are provided the option of either receiving their entitlement as a pension at a future date or transferring it outside the PSPPlan. Those 55 and over are required to take a pension at a future date. A deferred pension is calculated according to the normal retirement pension formula as payable from the normal retirement date (age 65). About 74% of our deferred pensioners are under age 55.

Age Distribution of Active Pensioners

as at December 31, 2003



Leadership Letter from the Chairman & CEO, and President



LEONARD LU
President

DONALD D. WEISS
Chairman & CEO

Union Station, Toronto

While we sincerely believe that the investment performance of the Fund's assets over any 12-month period is only a small part of a continuing story, we welcome the opportunity provided by this annual report to add to a steady record over time that OPB is executing and fulfilling its mandate effectively and to the benefit of our stakeholders, plan members and pensioners and the plan's sponsor, the Government of Ontario.

The goals of OPB's investment activities are progressive and consistent long-term growth and capital preservation. Consistent with our value-based approach, our investment portfolio is conservative and risk averse. Our primary focus is the real rate of return requirement to fund our pension promise, and our objective is to achieve growth over the long term that exceeds the rate of inflation by at least 3.75% per year on average.

The foundation for our investment philosophy is derived from our history and the Fund's unique characteristics. Unlike most major public sector pension plans, we have more pensioners and other beneficiaries than we have contributing active members. Our single plan sponsor sets both pension benefits and contribution rates, and fully guarantees pension payments. OPB's mandate is to achieve consistent and steady growth of fund assets over the longer term, based on prudent decision-making, a disciplined approach focused on capital preservation, and the need for steady cash flow generation to satisfy the ongoing requirement to pay our current pensioners.

We outsource investment management to a number of large, highly skilled external fund managers who invest under specific long-term market sector mandates. Our portfolio's composition is guided by a "Statement of Investment Policies and Procedures" that sets ranges and limits on various investment categories. The policy is reviewed annually by the full OPB Board of Directors and its Investment Committee.

The success of our investment strategy is evident in our performance since the establishment of the plan in 1990. Our average annual return from inception to the end of 2003 was 10.37%, well in excess of both the average 2.16% per year inflation over the same period and the real rate of return assumed in our valuations during the same period of 3.75%. This long-term average has placed us among the leaders for public sector pension plans in Canada.

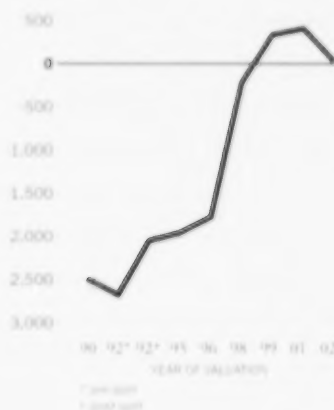
Our rate of return in 2003 was 10.77%.

Funding Valuation When OPB was created, the plan was in the red. The initial actuarial valuation when OPB was created in 1990 established an unfunded liability of \$2.5 billion. It was agreed that the deficit would be eliminated through annual payments by the Province of Ontario over 40 years. The fund's steady investment performance reversed the funding shortfall much more quickly than planned, and the unfunded liability was eliminated in 1999, 30 years earlier than anticipated and during a period when benefits were enhanced.

The filing of actuarial valuations of pension plans is required at least once every three years. We were fully funded at our most recent actuarial valuation on December 31, 2002, with a funding surplus of \$25 million.

Funding Position of the Plan

millions of dollars



Improving Our Services We strive to lead the pension fund industry in administration. In 2003, we made significant progress in our ongoing program to improve the quality of the services provided to plan stakeholders.

A significant initiative was the registration of our business processes under ISO 9001: 2000. ISO evaluates our business by examining both our documented standards and processes and how well we execute them. Our e-communications were certified in 2001 and member enrollment process in 2002. In 2003 we obtained certification of our communications business process. In 2004 and beyond, we will continue to certify key business processes under ISO standards. OPB was the first major public service pension plan in Canada to seek registration of a business process to ISO 9001: 2000 Quality Management Systems requirements.

Leadership Letter from the Chairman & CEO, and President *(continued)*

Communication While it might be argued that OPB's most visible administrative role is ensuring that pension cheques are mailed or deposited on time, it is certainly true that accurate individual information, historical data and changes to plan provisions are at the heart of our mandate. Our ability to communicate timely and accurate information to plan members and beneficiaries is the companion requisite for fulfilling our administrative role. We believe we are at the forefront of the pension fund industry in terms of communications.

OPB's communication with members and pensioners takes a variety of forms, and ranges from the regular to the "as needed" in terms of timing, and from the general to the individual in terms of focus.

- Specific inquiries and requests require complex calculations to inform members and beneficiaries of the impact of various events such as termination, retirement, purchases of past service, marital breakdown, or death. There is a need to provide clear information to enable our stakeholders to make proper choices.
- Each June, we provide each member and deferred pensioner with an Annual Pension Statement. This vital communication tool sets out individual details and calculations and helps them understand their current and projected entitlements. It also provides us an additional opportunity to verify the accuracy of the information in our database.
- OPB's web site provides all information that is available in hard copy and has a "retirement planner" tool to enable users to estimate income from all sources, (including employment and government pensions, PSP pensions, and private investments). New content and features are added to the site regularly.
- We made 23 presentations during 2003 to member and employer groups. These covered a variety of topics, including an overview of OPB, pre-retirement planning and special situations. Each of these must be tailored to the specific needs and provisions of the different bargaining units covered by the PSPPlan.
- OPB also produces brochures on selected topics such as "Planning Today for Tomorrow," brief memoranda to address concerns or areas where members require detailed information, bulletins to explain significant plan changes, and retirement and enrollment kits.
- OPB also has a communications role with the plan's sponsor and, in particular, with the various employer groups that are part of the plan. We provide regular guidelines and information to benefits coordinators and payroll clerks throughout the province. This helps to ensure the accuracy of the information we need for historical and calculation purposes.

We continue to set high standards for our telephone communications. We have implemented weekly reports that detail the time spent on each call and the percentage of call abandonments. Our abandoned call rate of less than 1% is down substantially from just a few years ago. Our response time is under thirteen seconds. We continue to upgrade our telephone system, call handling procedures and staff training.

Without sacrificing accuracy, we have reduced our inventory of cases. Secondary calculations for specific types of transactions enhance accuracy. We are continually re-evaluating and redefining current service level standards. While we do not have full control of the data we receive from employers, we have undertaken a number of initiatives to improve

data quality. We continue to implement measures to validate the quality of data we receive from government ministries and agencies. We follow up with employers whenever data are rejected or require abnormal "scrubbing" in order to meet our requirements. Prior to paying an entitlement or setting up an individual as a pensioner, we implement a final check by validating all information directly with employers.

We constantly evaluate the performance measurements we use to ensure that we fulfill our primary mission of providing quality service at a reasonable cost. Regular training of our staff improves their on-line assistance abilities and specific knowledge. All of these initiatives will ensure that we fulfill our commitments to all our stakeholders in a timely, efficient and accurate way.

Privacy Issues In the normal course of operations, OPB has access to specific private information about its members and beneficiaries, which must be protected from unauthorized use in any way. We have assessed and are refining our own privacy protection standards and practices, using guidelines set down by the Canadian Standards Association and federal legislation as a model. Our objective is to ensure that our members and beneficiaries have the fullest confidence that the personal information they provide to us is treated with confidentiality and respect.

Future Challenges OPB faces a number of major challenges over the coming years. The Special Province of Ontario debentures, which are a significant component of our fixed return investments and provide excellent returns, will mature over the next 11 years. We are actively identifying and evaluating investments that have similar attributes that will gradually be added to the portfolio over this time frame.

Like most investors, we believe that strong corporate governance is both a foundation for better performance among public companies and enhances our ability to identify promising investments. OPB is a member of the Canadian Coalition for Good Governance, whose mission is to represent Canadian institutional shareholders through the promotion of best corporate governance practices and to align the interests of boards and management with those of the shareholder.

Finally, we continue to prepare ourselves and our structure in a way that enables us to adapt quickly to changes in legislation, regulation and pension plan design to ensure that all our stakeholders are treated fairly, efficiently and accurately.

Effectively Managing Complexity With a variety of employer groups and plan provisions, OPB manages one of the more complex public sector pension plans in Canada. It is a tribute to the dedication and skill of our employees that our performance in investing the fund's assets and administering the plan is at the forefront of Canadian pension management. We thank them for their contributions in 2003 and look forward to continuing to fulfill our pension promise in the years ahead. OPB's approach to its mandate will continue to be carefully maximizing the returns on our investments with an emphasis on capital preservation. We set a strategy more than a decade ago that has kept us at the forefront of the pension industry, and we believe it remains the right strategy for today and for tomorrow.



DONALD D. WEISS
Chairman & CEO



LEONARD LU
President

Experience Governance and the Board of Directors



MARY TATE, PATRICK VERNON, JOHN RICHARDSON, GEOFFREY COLLINS, DON WEISS, DEBBIE MCKENNA, HUGH MACKENZIE

The Board of Directors has a minimum of four members. All members are appointed by the Lieutenant Governor in Council, normally for three-year terms which may be renewed. At least one Director must represent Plan members who are members of a bargaining agent with whom the Ontario government has a collective agreement. Board appointees may be selected for their expertise in the management, investment or administration of pension plans or to represent the concerns of the Crown, members who contribute to the Fund or Plan pensioners.

The objective of OPB's Board of Directors is to ensure that the plan's two main responsibilities, as trustee and administrator of the plan, are fulfilled in the best interests of the beneficiaries of the Public Service Pension Plan. The Board must also ensure compliance with the plan text and all applicable legislative and regulatory standards, principally the *Public Service Pension Act (PSPAct)*, the *Pension Benefits Act (Ontario)* and the *Income Tax Act (Canada)*.

OPB has a set of governance policies and guidelines which are designed to permit the Board of Directors to represent the interests of the plan's members, pensioners and other beneficiaries. We recognize that governance principles are continuously evolving, and these policies and guidelines are regularly reviewed, evaluated and modified to meet the changing needs of OPB's stakeholders. We also recognize that good governance depends on the integrity of our Board of Directors and our employees at all levels.

BOARD OF DIRECTORS

DONALD D. WEISS

Chairman and Chief Executive Officer

Appointed to the Board on March 31, 2000.

Mr. Weiss brings to the Board his experience as a senior executive in the financial services sector and extensive experience in management, investments and banking. His career includes 10 years with Canada Permanent and 16 years with Morguard Trust Company, where he was President and CEO. Mr. Weiss graduated with a Bachelor of Commerce degree from the University of Alberta in Edmonton.

GEOFFREY HAROLD COLLINS

Appointed to the Board on January 1, 2001.

Mr. Collins brings to the Board nearly 40 years of experience in investment management in both the public and private sectors. Before joining the Board, he was corporate manager of Pension Investments for the Hudson Bay Company. Earlier in his career, he was the equity manager for the Ontario Municipal Employees Retirement System (OMERS) and for Eaton's, and managed major pension and endowment funds at Royal Trust. Mr. Collins graduated from the Chartered Insurance Institute, London.

HUGH GRANT MACKENZIE

Appointed to the Board on December 4, 2002.

Hugh Mackenzie is principal in an economic consulting business, Hugh Mackenzie and Associates, based in Toronto. He has worked for over 30 years in a variety of capacities related to public policy development in the trade union movement, the private sector, and at all three levels of government. For 20 years, he was research director for the United Steelworkers of America, serving as the union's internal consultant on pension policy and pension bargaining.

He serves as the nominee of AMAPCEO on the Ontario Pension Board. He is also a member of the Pension Investment Committee of the Canada Post Pension Plan and a member of the Board of Trustees and Investment Committee and Treasurer of the Atkinson Charitable Foundation. From 1991 to 1994, Mr. Mackenzie was Executive Director of the Ontario Fair Tax Commission.

He is a graduate of the University of Western Ontario and holds a Masters degree in Economics (public finance) from the University of Wisconsin (Madison).

DEBBIE L. McKENNA

Appointed to the Board on December 17, 1997.

Ms. McKenna has extensive experience in pension policy and other pension-related matters, including benefit entitlement, retirement counselling, long-term income protection and financial management. She serves as an executive officer of Member Benefits and Services for the Ontario Provincial Police Association, where she has been employed for more than 23 years. Her responsibilities include reviewing benefit contracts and policies, pension entitlement projections, and establishing the roles and responsibilities of OPPA members. Ms. McKenna received a Credit Union Director Achievement Certificate and is educated in legal administration, real estate law and financing.

JOHN E. RICHARDSON

Appointed to the Board on February 6, 2002.

Mr. Richardson brings his expertise in finance and investment management to his role as Chairman of the Audit Committee of the Board. He was Deputy Chairman of London Insurance Group Inc., Chairman, President and CEO of Wellington Insurance Co. and President of Great Lakes Power. Prior to that, he was a partner with Ernst & Young LLP. He has also served as director of a number of community organizations, including the Toronto Rehabilitation Research Institute, the Toronto Community Foundation and the United Way of Toronto.

Mr. Richardson graduated from the University of Toronto with a Bachelor of Commerce, received an M.B.A. from the Harvard Business School, and is a fellow of the Institute of Chartered Accountants of Ontario.

MARY TATE

Appointed to the Board on November 20, 2002.

The Assistant Deputy Minister of the Integrated Service Delivery Division with the Ministry of Consumer and Business Services since February of 2003, Ms. Tate is responsible for improving access to government information and services by citizens and businesses, through electronic or over-the-counter channels. Prior to taking on this new position, she was the Assistant Deputy Minister of the Strategic Corporate Support Division within the Ministry of Consumer and Business Services.

Ms. Tate has over 20 years' experience in the Ontario Public Service. Her portfolio includes leading the successful OPS Workforce Information Network Project, which received the Showcase Ontario 2000 Diamond Award for Technology Innovation and Organizational Transformation. She has also had progressively responsible positions within the Ministries of Labour and Housing.

G. PATRICK H. VERNON

Appointed to the Board on October 1, 2001.

Mr. Vernon brings a broad range of experience to the Board as a lawyer and bank director. He is associate counsel with McCarthy Tétrault LLP. He previously served on the board of directors of Mizuho Bank Canada, the wholly owned subsidiary of a major Japanese bank, and of the Munich Reinsurance Company of Canada. He also currently serves as director for several charitable organizations, including the Carolyn Sifton Foundation. Mr. Vernon graduated with a B.A. from the University of Toronto, a Bachelor of Laws (LL.B.) from York University, and is a Queen's Counsel.

Experience Standing Committees of the Board the Directors

AUDIT COMMITTEE

Duties and Responsibilities

- establish and annually review appropriate financial and management controls and procedures, and information systems
- review and approve the objectives and scope of audits by the external auditor
- review and discuss the audit's findings with the auditor and management
- review and recommend to the Board the audited annual financial statements of the Plan and the Fund
- selection of the external auditor

Members

John E. Richardson (Chair)
Geoffrey Harold Collins
Donald D. Weiss

HUMAN RESOURCES COMMITTEE

Duties and Responsibilities

- recommend to the Board a compensation and benefits policy for officers and senior management of OPB
- implement planning for officers and senior management
- review and recommend to the Board the appointment of the negotiating team to undertake collective bargaining with employees

Members

G. Patrick H. Vernon (Chair)
Debbie L. McKenna
Donald D. Weiss

INVESTMENT COMMITTEE

Duties and Responsibilities

- review and recommend to the Board a statement of general investment philosophy
- review and recommend to the Board, and review annually, a written statement of investment policies and procedures
- review and recommend to the Board, at least once every three years, the long-term asset mix policy of the Fund
- approve additional investment policies, guidelines and strategies as necessary

- establish a due diligence process for the selection of investment managers and the Fund custodian
- examine the potential of investing in new asset classes and investment strategies or utilizing new investment products and services
- annually review the Fund's investment performance
- monitor compliance of the Fund with policies, procedures guidelines and applicable legislation

Members

Geoffrey Harold Collins (Chair)
Debbie L. McKenna
Donald D. Weiss

PENSION POLICY COMMITTEE

Duties and Responsibilities

- review and recommend to the Board proposed amendments to the PSPAct and the Plan
- review and recommend reciprocal agreements for transfers in and out of the Plan
- review and recommend to the Board policies and procedures for adjudication of Plan administration matters
- review and decide on any appeal of a decision of the staff Adjudication Committee
- ensure that an actuarial valuation of Plan assets and liabilities is prepared at least every three years
- review and recommend to the Board the actuarial assumptions to be used in the valuation of the Plan
- review and recommend to the Board the actuarial valuation report and the proposed level of contributions to the Plan
- monitor changes in actuarial principles and practices and in legislation, and their potential impact on the funded position of the Plan
- selection of Plan actuary

Members

Debbie L. McKenna (Chair)
Hugh Grant Mackenzie
Mary Tate
Donald D. Weiss

Accountability Financial Review



Darla S. Sycamore
Treasurer & Director, Finance

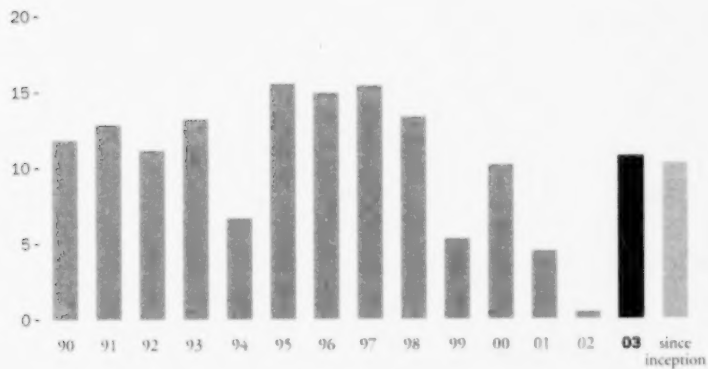
This financial review presents a snapshot of our continuing efforts to produce value for our members and pensioners. The 2003 financial results add to OPB's steady record of long-term performance.

INVESTMENTS

Despite the recent challenging market conditions, since the inception of the OPB in 1990 the fund's average annual rate of return has been 10.37%. The fund has not had a year of negative returns since its inception.

Total Investment Returns

percent per annum



In order to meet the fund's liabilities for pension benefits, a long-term return of 3.75% in excess of inflation is necessary. It has been challenging to maintain steady returns in highly volatile markets.

OPB achieved a rate of return of 10.77% in 2003 compared with 0.48% in 2002.

Accountability

Financial Review



DARLA S. SYCAMORE
Treasurer & Director, Finance

This financial review presents a snapshot of our continuing efforts to produce value for our members and pensioners. The 2003 financial results add to OPB's steady record of long-term performance.

INVESTMENTS

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Total Investment Returns

percent per annum



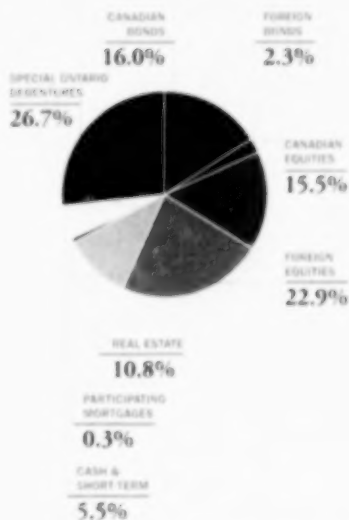
In order to meet the fund's liabilities for pension benefits, a long-term return of 3.75% in excess of inflation is necessary. It has been challenging to maintain steady returns in highly volatile markets.

OPB achieved a rate of return of 10.77% in 2003 compared with 0.48% in 2002.

Accountability Financial Review *(continued)*

Asset Mix

as at December 31, 2003



Asset Mix OPB's asset mix is discussed on page 2 of this annual report and is analyzed in detail in Note 4 to the financial statements.

For discussion purposes, investments can be grouped into three categories:

- Marketable Securities
- Special Province of Ontario Debentures
- Real Estate and Participating Mortgages

Under the Canada Revenue Agency requirements, the Plan is limited to a foreign content of 30% of the book value of its investments. As of December 31, 2003, the foreign content to book value of the portfolio was 25.5%.

Marketable Securities The marketable security portfolio of equities, bonds and cash equivalents is managed by eight portfolio managers and represents 61.7% of our investment portfolio.

Fund managers have been given discretion within their contract guidelines to adjust exposure to particular securities, industries or geographic sectors or even to hold cash if they believe that market movements are not justified by fundamentals. Fund managers' mandates are aligned with OPB's approach to long-term value investing and the managers are required to adhere closely to this strategy. OPB staff and the

Investment Committee provide an oversight role in monitoring the mandates and activities of fund managers.

OPB does not require adherence to the movement of particular indices (commonly referred to as "benchmarks"). Benchmarks are useful in managing a portfolio; however, they can lead to an over emphasis on short-term results to the detriment of long-term performance to meet future pension liabilities. Indices are primarily used for comparative purposes.

In 2003 our marketable security investments returned 10.32% (2002 negative 5.99%).

Special Province of Ontario Debentures The Special Province of Ontario Debentures ("the Debentures") were provided to the Plan as a funding mechanism when it was first formed in 1990.

It continues to be prudent to hold the Debentures to maturity since they provide consistent, secure, high rates of return as well as stable cash flows. These Debentures are presented at cost in the financial statements and our investment returns are stated on that basis.

The return on the Special Province of Ontario Debentures was 11.89% in 2003 (2002 - 11.80%). The Debentures will mature over the next 11 years. The maturities are set out on page 35 of this report.

Real Estate and Participating Mortgages OPB has a real estate portfolio valued at \$1.3 billion, consisting of nine fully owned shopping centres in major cities across Canada and one office complex in Toronto.

Property	Location	Leaseable Area (in sq. ft.)
Retail		
Brentwood Town Centre	Burnaby, BC	517,000
Carlingwood Mall	Ottawa, ON	511,000
Halifax Shopping Centre & Annex	Halifax, NS	1,058,000
Hillside Shopping Centre	Victoria, BC	425,000
Lougheed Town Centre	Burnaby, BC	649,000
Marlborough Mall	Calgary, AB	540,000
Pen Centre	St. Catharines, ON	951,000
Pickering Town Centre	Pickering, ON	873,000
St. Vital Centre	Winnipeg, MB	839,000
Total retail		6,363,000
Office		
One Queen Street East/20 Richmond Street East	Toronto, ON	503,000
Total retail and office		6,866,000

In May 2003, OPB acquired Hillside Shopping Centre in Victoria, BC for \$86.4 million. In addition, OPB invested \$25.3 million in renovations and expansion of the existing properties, and are planning to expand leaseable area by an additional 125,000 square feet in 2004.

The properties are 98.5% leased, and earned \$99.3 million in operating income. The cash flow from real estate is an important monthly source of funds for OPB.

Under Canadian generally accepted accounting principles, real estate properties owned by pension plans are to be independently appraised at least once every three years. Since 2001, OPB has obtained appraisals annually to provide an up-to-date measurement of returns. In 2003, appraisal increases of \$28.3 million, a 2.35% increase in our real estate returns, are included in unrealized gains (see note 6 to the financial statements).

Our total real estate portfolio earned a return of 10.58% in 2003 and an annualized average of 9.61% over the past 10 years. Real estate comprises 10.8% of the overall Fund value, which is within the approved asset mix range for real estate.

In 2003 OPB invested \$16.0 million in participating mortgages, bringing the total to \$36.3 million. Undeveloped lands in the Greater Toronto area secure all the mortgages. These investments accrue a base interest, and are designed to earn a share of profits generated over the next several years as the lands are sold or developed for residential or other use. Independent appraisals on the lands support a property value well in excess of the outstanding mortgages.

Accountability Financial Review *(continued)*

FINANCIAL POSITION

There are different measurements of the financial position of the Plan. These measurements serve different purposes and are discussed below.

Funding Valuation There is a statutory obligation to perform an independent actuarial valuation of assets and liabilities to determine how well the Plan is funded. This is required at least every three years. The Plan's objective is to provide that over the long term there will be sufficient assets in the fund to meet the Plan's obligations.

The process involves making assumptions and estimates about demographic and economic data, such as how long members will live and how investments will perform in excess of inflation. Variances from these long-term estimates are treated as "experience" gains and losses, and increase or reduce surpluses at each valuation. They may result in a re-evaluation of assumptions used.

For funding valuation purposes, assets are valued on an "actuarial basis." The Special Province of Ontario Debentures are valued on a discounted cash flow basis rather than cost, and the realized and unrealized gains on other investments are smoothed evenly over a four-year period.

Our funding surplus was \$25 million at December 31, 2002, the date of our last actuarial valuation. As at December 31, 2001, we reported a funding surplus of \$408 million. The changes in funded position are set out in the table below.

	<i>\$ million</i>
Funding surplus at December 31, 2001	408
Actuaries' programming corrections	(117)
Expected funding surplus at December 31, 2002	291
Expected interest on surplus	20
Change in discount rate for Special Province of Ontario Debentures	166
Investment experience	(450)
Salary and YMPE (Canada Pension Plan covered earnings level) experience loss	(52)
Inflation lower than assumed	113
Demographic experience	(44)
All other experience (net)	(19)
Funding surplus at December 31, 2002	25

The cost of funding the 3% member contribution rate reduction for the year beginning March 2003 is not reflected in the above calculations. This cost was estimated by our external actuaries to be approximately equal to the Plan's surplus at December 31, 2002.

Financial Reporting Valuation Each year, OPB is required to calculate its actuarial liabilities on a best estimate basis for the purposes of financial statement presentation. The Canadian Institute of Chartered Accountants (CICA) prescribes the methodology as part of generally accepted accounting principles. There are significant differences in the methodology used in the financial statement valuation as opposed to the funding valuation that is prescribed by statute. The CICA prescribed method bases the liability only on projected benefits for service accrued to date. On the other hand, the funding valuation also provides for projected benefits and contributions for future service. Prudence dictates a long-term view in the funding valuation using more conservative assumptions providing margins for adverse deviations. This is particularly true of the estimate of "real" investment returns. That is the amount our investment return is estimated over inflation. Our real rate of return assumption for funding purposes is 3.75% as compared with 4% for financial statement purposes.

The Plan's real rate of return assumptions for accounting purposes have remained stable for a number of years and have been lower than those of many other plans. This year the nominal rate of return assumption was changed from 7% to 6.5% and the long-term inflation estimate from 3% to 2.5% as a result of changes in market place expectations. This change resulted in a \$75.8 million experience loss adjustment to Accrued pension benefits.

As with our funding valuation, our assets are adjusted to an actuarial basis using an actuarial asset value adjustment. The components of the adjustment are set out in note 8 to the financial statements. The smoothing adjustment is intended to level the effect of market fluctuations, and similar adjustments are employed by other Plans. Last year \$494 million of net losses were deferred while this year net investment gains of \$1.6 million were deferred. Thus the fund's current financial position closely reflects a market value based approach excluding the effects of smoothing adjustment.

Surplus for financial statement purposes was \$706 million at the end of 2003 versus \$1,032 million last year. The changes in the surplus are set out in the Consolidated Statement of Changes in Surplus (page 24).

Accountability Financial Review *(continued)*

CHANGES IN NET ASSETS

(in millions of dollars)

	2003	2002
Contributions	\$ 270.9	\$ 135.2

The contribution rates for the Plan are set out in note 2(b) to the financial statements and are set by the Sponsor of the Plan.

Contributions approximately doubled from 2002 to 2003. For the first 11 months of 2002 the basic contribution rate for both members and employees was reduced by 4% of salary. In contrast, for a year from March 2003, contributions for most members were reduced by 3% of salary while employers' contributions continued at the normal levels set out in the PSPPlan of 8% (with CPP integration).

In addition, our membership increased by 3.6% from 2002 to 2003. Membership statistics are set out on pages 4 and 5.

Net Investment Income	\$ 1,201.3	\$ 41.8
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The composition of OPB's investment income is set out in note 6 to the financial statements.

Investment and custodial fees of \$13.6 million (2002 - \$13.6 million) were deducted from net investment income. These amounts consist primarily of fees paid to our fund managers as well as our custodian.

An improvement in equity markets significantly increased investment income.

Positive investment returns were experienced in both 2003 and 2002.

Transfers from Other Plans, and Termination Payments and Transfers	\$ 108.4	\$ 144.5
	\$ 41.2	\$ 42.1

The day-to-day business of the Plan includes the transfer of commuted values and other accrued benefits to other plans and beneficiaries.

Many transfers arise because the employee has transferred from an OPSEU represented position to an unrepresented position (or vice versa), often with the same employer. The plan provides for the past service of the employee to be transferred into or out of the Plan as the case may be. In 2003, there were 1,190 transfers into the Plan from the OPSEU Pension Trust (OPT) and 145 transfers out of the Plan to the OPT. In 2002, in addition to the ongoing transfers, 1,239 support people from the OPP were transferred from the OPT to OPB.

Pensions Paid	\$ 728.5	\$ 721.2
----------------------	-----------------	-----------------

While there were fewer pensioners in 2003 than in 2002, the average pension paid increased. This was partly due to a 1.6% escalation in 2003.

Our monthly cash requirement to pay our pensions is now \$60 million. In 2003 only 37% of this cash came from contributions. A substantial portion of the cash requirement comes from investment income, which provides a steady cash return. OPB's asset allocation is designed to meet these ongoing requirements.

Pensioner statistics are set out on pages 4 and 5.

Operating Expenses	\$ 16.4	\$ 13.7
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Operating expenses are set out in note 10 to the financial statements.

2003 expenses include a catch-up adjustment of \$1.3 million relating to accumulated staff vacation and termination benefits which were previously expensed upon payment.

Operating expenses represent the costs of service to our members and continuing investment to improve the quality and timeliness of our service. The activities of plan administration are set out elsewhere in this annual report.

In 2003, the number of individual members, pensioners and deferred pensioners served by OPB increased by 750 to 74,150.

Operating expenses of \$16.4 million, together with investment management and custodial fees of \$13.6 million, represent less than 25 cents per \$100 of assets (24 cents in 2002).

Five-Year Review

(in millions of dollars)

	2003	2002	2001	2000	1999
Opening assets	\$ 11,489.6	\$ 11,945.1	\$ 11,951.2	\$ 11,196.0	\$ 10,973.9
Investment income	1,201.2	41.8	517.7	1,111.0	569.0
Regular contributions	270.9	135.2	130.2	176.5	200.8
Unfunded liability payments	-	-	-	106.1	121.3
Transfers	108.4	144.5	103.0	143.2	38.1
	1,580.5	321.5	750.9	1,536.8	929.2
Pension payments	728.5	721.2	695.9	669.6	648.9
Terminations	41.2	42.1	45.7	100.3	47.0
Operating expenses	16.4	13.7	15.4	11.7	11.2
	786.1	777.0	757.0	781.6	707.1
Closing assets	\$ 12,284.0	\$ 11,489.6	\$ 11,945.1	\$ 11,951.2	\$ 11,196.0
Rate of return: Annual percent	10.77	0.48	4.52	10.19	5.37

Actuaries' Opinion to the Directors of the Ontario Pension Board

We have prepared an actuarial valuation on a funding basis of the Public Service Pension Plan ("PSPPlan") as of December 31, 2002 as described in Note 8(a) of these consolidated financial statements.

We hereby certify that, in our opinion:

- the data provided to us by the Ontario Pension Board ("OPB") are sufficient and reliable for the purposes of the December 31, 2002 valuation;
- the actuarial assumptions used are, in aggregate, appropriate for the purposes of a valuation for funding purposes of the PSPPlan;
- the methods employed in the valuation are appropriate for the purposes of the valuation and are consistent with the requirements of the *Pension Benefits Act (Ontario)*, the *Public Service Pension Act*, and the *Income Tax Act (Canada)*; and
- the valuation was prepared and our opinion given in accordance with accepted actuarial practice.

Using the same data as provided by the OPB for the funding basis valuation, we also prepared an estimate of the assets and liabilities as of December 31, 2003 on an actuarial basis following the accounting methodology required by The Canadian Institute of Chartered Accountants Handbook, Section 4100, as disclosed in Note 8(b). These amounts are set out in the consolidated statement of net assets available for benefits and accrued pension benefits and surplus. The valuation for accounting purposes was prepared in accordance with accepted actuarial practice and is based on assumptions set out in Note 8(b), which in our opinion fall within a reasonable range.



MICHAEL D. BANKS, F.I.A., F.C.I.A.
MERCER HUMAN RESOURCE CONSULTING LIMITED
February 9, 2004



AMY PUN, F.S.A., F.C.I.A.

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these consolidated financial statements are in accordance with generally accepted accounting principles. Of necessity, many amounts in the financial statements must be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout the OPB.

The Board of Directors ("Board") is ultimately responsible for the consolidated financial statements of the OPB. The OPB's Audit Committee assists in this responsibility by reviewing the consolidated financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.



LEONARD LU

President

February 9, 2004



DARLA S. SYCAMORE, CA

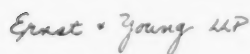
Director, Finance

Auditors' Report to the Directors of the Ontario Pension Board

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus of the Ontario Pension Board ("OPB") as at December 31, 2003, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended. These consolidated financial statements are the responsibility of the OPB's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the OPB as at December 31, 2003 and the results of its operations and the changes in its financial position, accrued pension benefits and surplus for the year then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada

February 9, 2004

Consolidated Statement of **Net Assets** Available for Benefits and Accrued Pension Benefits and Surplus

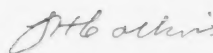
As at December 31

<i>(in thousands of dollars)</i>	2003	2002
Assets		
Investments (Note 4)	\$ 12,275,080	\$ 11,491,227
Contributions receivable (Note 7)	32,317	19,973
Capital assets (Note 5)	1,256	1,097
Total assets	12,308,653	11,512,297
Liabilities		
Income taxes withheld on pension payments	8,952	8,977
Accounts payable and accrued charges	14,704	12,616
Contributions payable	951	1,130
Total liabilities	24,607	22,723
Net assets available for benefits	12,284,046	11,489,574
Actuarial asset value adjustment (Note 8(b))	1,135,261	1,729,362
Actuarial value of net assets available for investments	13,419,307	13,218,936
Accrued pension benefits and surplus		
Accrued pension benefits	12,713,633	12,186,535
Surplus (Note 8(b))	705,674	1,032,401
Total benefits and surplus	\$ 13,419,307	\$ 13,218,936

See accompanying notes



DONALD D. WEISS
Director



GEOFFREY H. COLLINS
Director

Consolidated Statement of Changes in Net Assets Available for Benefits

For the Year Ended December 31

(in thousands of dollars)

	2003	2002
Increase in net assets		
Net investment income (Note 6)	\$ 1,201,278	\$ 41,848
Contributions (Note 7)	270,927	135,197
Transfers from other plans	108,351	144,478
Increase in net assets	1,580,556	321,523
Decrease in net assets		
Pensions paid	728,456	721,225
Termination payments and transfers	41,208	42,057
Operating expenses (Note 10)	16,420	13,734
Decrease in net assets	786,084	777,016
Net increase (decrease) in net assets for the year	794,472	(455,493)
Net assets, at beginning of year	11,489,574	11,945,067
Net assets, at end of year	\$ 12,284,046	\$ 11,489,574

See accompanying notes

Consolidated Statement of Changes in Accrued Pension Benefits

For the Year Ended December 31

<i>(in thousands of dollars)</i>	2003	2002
Accrued pension benefits, at beginning of year	\$ 12,186,535	\$ 11,573,932
Increase in accrued pension benefits		
Interest on accrued pension benefits	839,293	809,150
Benefits accrued	386,866	399,512
Experience losses	70,606	167,248
Total increase	1,296,765	1,375,910
Decrease in accrued pension benefits		
Benefits paid	769,667	763,307
Total decrease	769,667	763,307
Net increase in accrued pension benefits	527,098	612,603
Accrued pension benefits, at end of year	\$ 12,713,633	\$ 12,186,535

Consolidated Statement of Changes in Surplus

For the Year Ended December 31

<i>(in thousands of dollars)</i>	2003	2002
Surplus, at beginning of year	\$ 1,032,401	\$ 1,555,091
Increase (decrease) in net assets available for benefits	794,472	(455,493)
Change in actuarial asset value adjustment	(594,101)	545,406
Increase in actuarial value of net assets available for benefits	200,371	89,913
Net increase in accrued pension benefits	(527,098)	(612,603)
Net decrease in surplus	(326,727)	(522,690)
Surplus, at end of year	\$ 705,674	\$ 1,032,401

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 2003

Note 1 PUBLIC SERVICE PENSION ACT Effective January 1, 1990, the Province of Ontario ("Province") enacted the *Public Service Pension Act, 1990* ("PSPA") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPPlan") are stated in Schedule 1 to the *PSPA*. The Ontario Pension Board ("OPB") is the administrator of the PSPPlan.

Note 2 DESCRIPTION OF PSPPLAN The following is a brief description of the PSPPlan. For more complete information, reference should be made to the *PSPA*.

a) **General** The PSPPlan is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the *PSPA*. Under the PSPPlan, contributions are made by the members and the employers. The PSPPlan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency as required (Registration Number 0208777).

b) **Contributions** The PSPPlan is integrated with the Canada Pension Plan ("CPP"). Member contributions are 6.2% of the salary on which contributions to CPP are made and 8% on the balance of salary. The employers contribute matching amounts. The Province, as plan sponsor, amended the PSPPlan to provide for a contribution reduction of 3% of salary for members, other than those belonging to the Ontario Provincial Police Association and Justices of the Peace. Employer contributions continued at the full 8% rate. The one-year reduction for employees took effect in March 2003.

Ontario Provincial Police ("OPP") officers are required to contribute to the PSPPlan an additional 2% of salary which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to OPP officers.

c) **Pensions** A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPPlan multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for amounts received under the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit. The Province amended the PSPPlan to provide for an enhanced early retirement opportunity for members of the Plan whose age and service in the Plan equals at least 80 years ("Factor 80"). The Factor 80 program ended on March 31, 2002. The PSPPlan was again amended to permit those members who are deemed to be surplus by their employer to retire upon attaining the Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The program is scheduled to expire March 31, 2006. OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) **Death Benefits** Benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate on the death of a member or a pensioner.

e) **Disability Pensions** Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPPlan. The amount of the disability pension is dependent on years of credit and average salary.

f) **Termination Payments** Members terminating employment before age 55, who are eligible for a deferred pension, may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to another pension plan or to purchase a life annuity.

Notes to Consolidated Financial Statements *(continued)*

December 31, 2003

g) **Escalation of Benefits** Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) **Basis of Presentation** The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and present the position of the PSPPlan as a separate entity independent of the employers and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b) **Principles of Consolidation** The accounts of the wholly-owned subsidiary, OPB Realty Inc., are included on a consolidated basis.

c) **Investments** Traded investments are stated at fair value based on year-end market prices. Short-term investments are carried at cost, which approximates their aggregate fair value. Special Province of Ontario Debentures, which are non-marketable, are recorded at face value. Gains and losses realized on the disposal of investments are credited or charged to investment income. Withholding tax refunds from foreign jurisdictions are recorded on a cash basis. Investment transactions are recorded on a trade date basis.

Real estate investments are stated at appraised values as established by independent annual appraisals. Changes in valuation due to appraisal adjustments are included in unrealized gains.

Participating mortgages are recorded at face value, subject to an assessment of recoverable value based on an annual independent appraisal of the securitized properties. Income is accrued at the rate stated in the instrument and any participation income is recorded when realized.

d) **Contributions** Contributions from members and employers which are due to the PSPPlan at year end are recorded as receivable. Transfers and purchases of prior service are recorded after cash is received and the case is processed.

e) **Pensions** Payments of pensions, refunds and transfers are recorded in the year in which they are made.

f) **Capital Assets** Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

g) **Foreign Currency Translation** Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year end.

Note 4 INVESTMENTS

As of December 31

	2003		2002	
(in thousands of dollars)	Fair Value	Cost	Fair Value	Cost
Cash and short-term investments				
Canadian ¹	\$ 628,966	\$ 631,451	\$ 546,409	\$ 545,803
Foreign ²	60,703	61,639	64,371	63,104
Forward exchange contracts	(14,895)	-	248	-
	674,774	693,090	611,028	608,907
Fixed income				
Special Province of Ontario Debentures	3,092,167	3,092,167	3,233,173	3,233,173
Bonds				
Canadian ³	1,941,136	1,867,774	1,828,303	1,752,563
Foreign	275,628	240,161	291,894	237,556
	5,308,931	5,200,102	5,353,370	5,223,292
Equities				
Canadian ⁴	1,900,903	1,440,082	1,527,583	1,381,518
Foreign	2,807,260	2,592,983	2,566,451	2,584,346
	4,708,163	4,033,065	4,094,034	3,965,864
Real estate	1,293,768	1,182,050	1,151,019	1,067,546
Participating mortgages	36,331	36,331	20,312	20,312
Investments	12,021,967	11,144,638	11,229,763	10,885,921
Accrued income	253,113	253,113	261,464	261,464
Total	\$ 12,275,080	\$ 11,397,751	\$ 11,491,227	\$ 11,147,385

¹ Canadian cash and short-term investments is comprised of cash of \$9.875 million fair value and cost, short-term notes and treasury bills of \$599.022 million fair value (\$601.507 million cost), and term deposits of \$20.069 million fair value and cost.

² Foreign cash and short-term investments is comprised of cash of \$3.623 million fair value and cost, short-term notes and treasury bills of \$12.721 million fair value (\$13.036 million cost), term deposits of \$35.860 million fair value (\$36.053 million cost), and pooled funds of \$8.499 million fair value (\$8.927 million cost).

³ Canadian bonds include \$132.699 million fair value (\$129.973 million cost) in pooled bond funds.

⁴ Canadian equities include \$98.872 million fair value (\$78.919 million cost) in pooled equity funds.

Notes to Consolidated Financial Statements *(continued)*

December 31, 2003

As administrator of the Public Service Pension Fund (the "Fund"), the OPB has adopted a Statement of Investment Policies and Procedures. This Statement provides investment objectives, performance expectations and guidelines for the management of the Fund. To reduce risk and enhance returns, the OPB diversifies its investments into various asset classes. The allocation at any point in time is determined based on an assessment of economic and financial market conditions.

To provide the ability to respond to fundamental changes, the Fund's asset mix is maintained within the following ranges:

Canadian equity	10% to 20%
Non-Canadian equity	20% to 30%
Real estate	5% to 15%
Total equity and real estate	35% to 65%
Bonds	35% to 65%
Short term	0% to 10%
Total fixed income	35% to 65%

The Fund's long-term asset mix policy is as follows:

Equity	50%
Fixed income	50%

This policy was adopted after evaluating the risk characteristics of alternative policies, considering the liquidity requirements of the Fund and the economic assumptions employed in the PSPPlan's actuarial valuation.

The Special Province of Ontario Debentures, which are non-marketable, are recorded at their aggregate face value of \$3.09 billion. Accumulated interest of \$188 million on these Debentures is included in accrued income. By discounting cash flows based on year-end market yields of comparable bonds, a value of \$4.42 billion could be determined. There are currently 14 Special Province of Ontario Debentures maturing over the next 11 years with a weighted average interest rate of 11.97%.

The OPB invests in high-grade bonds and common shares. The fair value of investments denominated in foreign currencies will fluctuate with moves in exchange rates.

The OPB has entered into various forward exchange contracts to limit exposure to foreign currency fluctuations. The face value of the outstanding contracts at year end total \$726 million (\$47 million in 2002), translated at the contracted forward rate.

As at December 31, 2003, there was approximately \$563 million of the Fund's securities on loan to third parties. Pursuant to a securities lending agreement, the Fund's custodian arranges the loans and the Fund earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with comparable securities.

The carrying value of the real estate assets was increased by \$28 million to reflect the results of independent appraisals conducted as at December 31, 2003.

See the schedules of Fixed Income Maturities and Investments Over \$35 Million Market Value for further information.

Note 5 CAPITAL ASSETS

As at December 31

				2003	2002
				Net Book	Net Book
(in thousands of dollars)	Cost	Accumulated Amortization		Value	Value
Computer equipment	\$ 1,949	\$ 1,178	\$ 771	\$ 530	
Leasehold improvements	1,459	1,206	253	330	
Furniture and fixtures	788	556	232	237	
Total capital assets	\$ 4,196	\$ 2,940	\$ 1,256	\$ 1,097	

Note 6 NET INVESTMENT INCOME

For the Year Ended December 31

	2003	2002
(in thousands of dollars)		
Interest income		
Cash and short-term investments		
Canadian ¹	\$ 15,201	\$ 12,963
Foreign ²	912	902
Fixed income		
Special Province of Ontario Debentures	377,137	389,972
Bonds		
Canadian ³	109,626	114,759
Foreign	11,600	15,613
Total interest income	514,476	534,209
Dividend income		
Canadian ⁴	35,492	30,402
Foreign	59,576	56,734
Total dividend income	95,068	87,136
Real estate income	99,278	89,233
Participating mortgage income	1,723	81
Realized loss	(29,197)	(303,837)
Unrealized gain (loss)	533,488	(351,419)
Total investment income	1,214,836	55,403
Investment management and custodial fees	(13,558)	(13,555)
Net investment income	\$ 1,201,278	\$ 41,848

¹ Includes interest from cash of \$0.782 million, short-term notes and treasury bills of \$13.876 million and term deposits of \$0.543 million.² Includes interest from cash of \$0.094 million, short-term notes and treasury bills of \$0.085 million, and term deposits of \$0.733 million.³ Includes interest of \$9.488 million from pooled bond funds.⁴ Includes dividends of \$0.111 million from pooled bond funds.

Notes to Consolidated Financial Statements *(continued)*

December 31, 2003

Note 7 CONTRIBUTIONS

For the Year Ended December 31

(in thousands of dollars)

	2003	2002
Members		
Current service	\$ 112,142	\$ 60,753
Prior service	7,958	12,956
	120,100	73,709
Employers		
Current service	146,959	55,391
Prior service	3,868	6,097
	150,827	61,488
Total contributions	\$ 270,927	\$ 135,197

The contribution requirements are set out in the *PSPAct* and summarized in Note 2.

Contributions receivable represent members' and employers' contributions due as well as estimated receivables for members receiving benefits on Long Term Income Protection ("LTIP") and for the matching portion of buybacks billed to the employer. The portions receivable from members and employers are set out in the following table:

As at December 31

(in thousands of dollars)

	2003	2002
Members	\$ 8,043	\$ 8,828
Employers	24,274	11,145
Total contributions receivable	\$ 32,317	\$ 19,973

Note 8 ACCRUED PENSION BENEFITS

a) **Funding Basis** The funding of the PSPPlan is based on a method of valuation required under the *PSPAct*. An actuarial valuation of the PSPPlan, prepared on a funding basis, was completed by the OPB's actuaries, Mercer Human Resource Consulting Limited ("Mercer") as at December 31, 2002. This valuation disclosed an actuarial surplus of \$25 million.

The *Pension Benefits Act (Ontario)* and the *Income Tax Act (Canada)* require an actuarial valuation for funding purposes to be performed at least every three years.

b) **Accounting Basis** The consolidated financial statements include actuarial value of net assets and accrued pension benefits as at December 31, 2003 and 2002, which are based on actuarial calculations as of these dates in accordance with the recommendations of The Canadian Institute of Chartered Accountants (CICA).

These standards require that the obligation for accrued pension benefits be calculated using the projected benefit method pro-rated on services and management's best estimate assumptions.

(i) **Actuarial Assumptions** The assumptions used for accounting purposes, following the CICA recommendations, reflect management's best estimates of future events. They include such non-economic assumptions as mortality and retirement rates as well as economic assumptions such as investment returns.

The key economic assumptions used for accounting purposes in 2003 and 2002 are as follows:

	2003	2002
Interest	6.5%	7.0%
Inflation	2.5%	3.0%
Real rate of return	4.0%	4.0%
Salary	3.5%	4.0%
	+ promotional scale	+ promotional scale

(ii) *Actuarial Asset Value Adjustment* The actuarial asset value adjustment increases or decreases the financial statement carrying values of certain assets to an actuarial basis. For the OPB two adjustments are made – an adjustment to bring the Special Province of Ontario Debentures to a discounted cash flow basis and a smoothing adjustment to reflect realized and unrealized gains and losses on investments (other than Special Province of Ontario Debentures) over four years, including the current year. These adjustments are set out in the following table:

For the Year Ended December 31

(in thousands of dollars)	2003	2002
Adjustment for Special Province of Ontario Debentures, based upon discounted cash flows	\$ 1,136,865	\$ 1,235,213
Net (gain) loss on investments, deferred to future periods (actuarial smoothing adjustment)	(1,604)	494,149
	\$ 1,135,261	\$ 1,729,362

The actuarial smoothing adjustment amortizes realized and unrealized gains and losses on investments over a four-year period. The net effect of this adjustment is a deferral of \$2 million of net gains (2002 net loss deferral of \$494 million). Set out below is a table analyzing this adjustment:

Deferred as at December 31

(in thousands of dollars)	2003	2002
Annual net gain (loss) on investments		
2000 \$ 381,071	-	\$ (95,268)
2001 (195,949)	\$ 48,987	97,975
2002 (655,256)	327,628	491,442
2003 504,291	(378,219)	-
Total net (gain) loss on investments, deferred to future periods	\$ (1,604)	\$ 494,149

Notes to Consolidated Financial Statements *(continued)*

December 31, 2003

Note 9 ONTARIO PROVINCIAL POLICE OFFICERS' EARLY RETIREMENT BENEFIT

Under the PSPPlan, the OPB is required to report annually on the early retirement benefit provided by the PSPPlan to police force officers who are employed by the Ontario Provincial Police (OPP). This early retirement benefit is available to OPP officers who are 50 years of age and have 30 years of credit in the PSPPlan. OPP officers contribute 2% of their salary to the PSPPlan in addition to the regular contribution amount. This contribution is matched by the employer.

The liability for OPP officers who qualify and elect to retire under Factor 80 provisions is not reported under the OPP early retirement benefit.

The position of the OPP officers' early retirement benefit was included in the actuarial valuation as at December 31, 2002. The value of projected future contributions and benefits included in the December 31, 2002 actuarial valuation was updated to reflect actual contributions received and benefit payments made during the period to December 31, 2003.

The additional obligation and assets related to the OPP officers' early retirement benefit as at December 31, 2003, as provided by the OPB's actuaries, were as follows:

(in thousands of dollars)

Assets allocated to payment of OPP officers' early retirement benefit	\$	109,888
Actuarial value of future additional contributions from OPP officers and employer		103,274
		213,162
Actuarial value of future OPP officers' early retirement benefit		200,459
Assets and actuarial value of future additional contributions available in excess of actuarial value of future OPP officers' early retirement benefit	\$	12,703

Note 10 OPERATING EXPENSES

For the Year Ended December 31

(in thousands of dollars)

	2003	2002
Salaries and benefits	\$ 8,510	\$ 7,028
Accumulated vacation and termination costs ¹	1,278	-
Agency services	482	344
Office premises and operations	2,367	2,420
Computer and professional services	2,718	2,880
Depreciation and amortization	453	332
Communications	374	480
Audit	115	114
Travel	73	86
Publications, registration and filing fees	50	50
Total operating expenses	\$ 16,420	\$ 13,734

¹ For the year 2003, an amount of \$1.3 million relates to accumulated staff vacation and termination benefits owing, which were previously expensed upon payment.

Note 11 EXECUTIVE COMPENSATION

The compensation table represents disclosure of the taxable compensation and benefits earned in the year by the Chief Executive Officer and the four other most highly compensated executives.

	Compensation	Taxable Benefits
Donald D. Weiss, Chairman and CEO	\$ 240,109	\$ 317
Leonard Lu, President	321,584	432
Mark J. Fuller, Executive Vice-President	289,857	402
Robert F. Kay, Senior Vice-President, Investments	257,267	356
Peter Shena, Vice-President, Policy & Research	179,216	274

Schedule of Fixed Income Maturities

As at December 31

	2003		2002	
	Fair Value	Effective Yield %	Fair Value	Effective Yield %
<i>(in thousands of dollars)</i>				
Special Province of Ontario Debentures				
0 - 1 year	\$ 120,323	9.82 - 12.78	\$ 100,898	9.51 - 14.65
1 - 5 years	843,855	11.05 - 15.38	739,773	9.82 - 15.38
5 - 10 years	1,677,050	10.38 - 13.33	1,531,886	10.38 - 13.33
> 10 years	450,939	11.19	860,616	11.10 - 11.19
	3,092,167		3,233,173	
Bonds				
Canadian:				
0 - 1 year	86,545	3.44 - 9.18	142,862	5.17 - 10.56
1 - 5 years	486,438	3.34 - 8.70	317,902	3.02 - 9.10
5 - 10 years	809,999	4.62 - 8.18	837,444	4.36 - 7.72
> 10 years	425,455	2.87 - 7.27	410,260	3.68 - 7.99
PH&N Bond Fund: 1 - 30 years	132,699	4.35	119,835	4.91
	1,941,136		1,828,303	
Foreign:				
0 - 1 year	2,954	7.76	30,939	4.47 - 7.93
1 - 5 years	161,630	4.33 - 6.94	89,513	4.30 - 7.41
5 - 10 years	62,099	2.76 - 5.43	117,896	3.74 - 5.71
> 10 years	48,945	4.90 - 5.22	53,546	5.07 - 5.47
	275,628		291,894	
	\$ 5,308,931		\$ 5,353,370	

Investments Over \$35 Million Market Value

As at December 31

<i>(in thousands of dollars)</i>	Maturities	Coupon %	Market Value ¹
Cash and short-term investments			
Canadian:			
Government of Canada			\$ 339,331
Province of Ontario			50,377
Foreign:			
Barclays Bank			35,860
Fixed income			
Special Province of Ontario Debentures	2004 – 2014	9.82 – 15.38	3,092,167
Canadian:			
Government of Canada	2004 – 2036	3.00 – 10.25	624,982
Province of Ontario	2004 – 2029	3.75 – 9.50	192,973
Phillips Hager & North High Grade Corporate Bond Fund	2004 – 2033	3.65 – 8.55	132,699
Royal Bank of Canada	2008 – 2053	5.40 – 5.81	57,689
NHA Mortgage-Backed Securities	2005 – 2011	5.25 – 5.50	56,781
Woodbine Entertainment Group	2011	8.58	52,998
Province of British Columbia	2004 – 2012	5.75 – 9.00	52,716
Loblaw Companies Ltd.	2008 – 2033	6.00 – 7.10	46,097
Manulife Financial Corporation	2011 – 2016	5.70 – 6.70	44,222
Sun Life Assurance Company	2011 – 2028	5.80 – 6.87	39,429
Foreign:			
Government of France	2005 – 2025	3.00 – 6.00	110,823
UK Treasury	2006 – 2008	5.00 – 7.50	72,494
Germany Federal Republic Bonds	2009 – 2034	3.75 – 5.63	57,122
Real estate			
OPB Realty Inc. (holding company, 100% owned)			1,280,768
Participating mortgages	2009 – 2019	5.00	36,331

¹ Except for Special Province of Ontario Debentures.

Investments Over \$35 Million Market Value (continued)

(in thousands)

	Shares	Market Value
Equities		
Canadian:		
Royal Bank of Canada	1,922	\$ 118,773
Manulife Financial Corporation	2,219	92,857
Sceptre Small Cap Section Pooled Fund	162	89,908
Toronto-Dominion Bank	1,977	85,602
The Bank of Nova Scotia	1,227	80,737
Canadian Imperial Bank of Commerce	1,243	79,526
Encana Corp.	1,529	77,993
Power Financial Corporation	1,671	73,548
Bank of Montreal	1,192	63,761
Suncor Energy	1,925	62,550
Alcan Inc.	1,019	61,733
Canadian National Railway	723	59,253
Petro-Canada	818	52,298
TransCanada PipeLines Ltd.	1,567	43,681
BCE Inc.	1,410	40,735
Barrick Gold Corp.	1,383	40,524
Rogers Communications Inc.	1,722	36,737
The Thomson Corporation	770	36,230
Foreign:		
United States:		
Pfizer Inc.	1,391	63,486
Microsoft Corporation	1,430	50,567
General Electric Company	1,165	46,635
Altria Group Inc.	598	42,054
Johnson & Johnson Inc.	607	40,522
American International Group Inc.	459	39,336
Citigroup Inc.	623	39,091
Fannie Mae	382	37,053
Merck & Co Inc.	619	36,926
Exxon Mobil Corp.	692	36,674
United Kingdom:		
Vodafone	12,121	41,514
France:		
Total S.A.	167	40,026

Corporate Directory

OFFICERS

DONALD D. WEISS

Chairman & CEO

LEONARD LU

President

MARK J. FULLER

Executive Vice-President

ROBERT F. KAY

*Senior Vice-President,
Investments*

LINDA J. BOWDEN

*Vice-President,
Corporate Services*

ANTONIA EVAGELOU

*Vice-President,
Plan Administration*

PETER SHENA

*Vice-President,
Pension Policy & Research*

DARLA S. SYCAMORE

*Treasurer & Director,
Finance*

SENIOR MANAGEMENT

JOSEPH A.P. FARRUGIA

*Director, Planning &
Information Technology*

PETER M.T. JOHNSON

*Director, Member &
Pensioner Services*

MARK A. HENRY

*Director,
Operational Policy*

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